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Economic Intelligence Memorandum

THE ECONOMIC SITUATION IN CUBA: A PICTURE OF DISLOCATION AND DECLINE

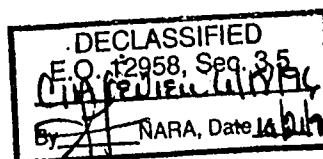


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CENTRAL INTELLIGENCE AGENCY

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A PICTURE OF DISLOCATION AND DECLINE

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THE ECONOMIC SITUATION IN CUBA:
A PICTURE OF DISLOCATION AND DECLINE*

Summary and Conclusions

The Cuban economy in mid-1962 is in the throes of a progressive decline. Although reliable statistics on most national economic aggregates are not available, other evidence indicates strongly that consumption, production, investment, and foreign trade all are down substantially from their pre-Castro levels and are likely to continue further downward.

Since the end of 1960, living standards in Cuba have been declining steadily. Although the total volume of workers' salaries has increased substantially and rents have been reduced, the volume of goods available for purchase by the population has been shrinking. Per capita food consumption is estimated to have declined by more than 15 percent and to have dropped from third highest in Latin America to seventh. New housing has not become available on a large scale, because other claimants for construction resources, particularly the military, have been given higher priority.

Cuban agriculture in 1962 is lagging far behind the grandiose plans of the regime. The 1962 sugar crop of 4.8 million metric tons** is, by a substantial margin, the smallest of the last 6 years. Output of crops other than sugar is estimated to have remained at about pre-Castro levels but is far below the unrealistically high targets set by Cuban planners. The number of livestock, which declined sharply as a result of promiscuous slaughtering in the first 2 years of Castro's rule, still remains below the level prevailing before the revolution. The failure of domestic production to compensate for reduced imports of foodstuffs has necessitated the imposition of a nationwide rationing system.

Like most other sectors of the economy, Cuban industry has deteriorated markedly since the government seized control. The regime has not solved the problem of providing parts and replacements for US and other Western machinery. A shortage of foreign exchange and the US embargo have forced Cuba into primary dependence on the Bloc for the replacement of existing machinery and equipment as well as for raw materials.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 15 August 1962.

** Tonnages are given in metric tons throughout this memorandum.

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The Cubans have discovered that Bloc materiel is frequently of poorer quality than that formerly obtained in the West. Many, if not most, plants in Cuba are managed by unqualified personnel, selected on the basis of their loyalty to the regime rather than their technical competence.

Since the early part of 1960 the Bloc has extended to Cuba credits totaling about \$460 million* for economic development and apparently about \$50 million for current supplies of food, raw materials, and fuel. The USSR granted two-thirds of the development credits as well as the entire sum for commodities. As of mid-1962, however, the Bloc has made relatively few deliveries under the development agreements -- in fact, only Czechoslovakia seems to have acted with any sense of urgency.

In addition to the material economic assistance, the Bloc also is committed to provide technical support, including the service of trained specialists. As of mid-1962 it was estimated that there were 950 Bloc specialists in Cuba, and in July and August this figure rose sharply with the arrival of large numbers of additional Bloc personnel.

Since Castro's takeover, radical changes have occurred in the level, composition, and direction of Cuba's foreign trade, the lifeline of its economy. The total value of Cuban foreign trade turnover in 1961 was about 25 percent lower than the average for 1957-58, the last 2 pre-Castro years. Through 1961, imports declined more than exports, with the largest cuts being reflected in imports of consumer goods. Under Castro the Bloc has taken the place of the US as Cuba's principal trading partner. The Bloc share of Cuban foreign trade rose from about 1 percent in 1958 to almost 75 percent in 1961, and it is estimated that the Bloc share will exceed 80 percent in 1962.

Prospects for the Cuban economy over the next 18 months are bleak. The country remains in the hands of leaders poorly qualified to manage the economy, and the adverse effects of managerial incompetence will continue to be felt in all sectors. The level of industrial production probably will continue to decline as plants shut down sporadically because of equipment breakdowns and material shortages. The generally poor condition of Cuba's industrial plant is likely to be aggravated as purchases of spare parts and replacements from Free World sources are further constricted by a lack of foreign exchange.

Foreign exchange earnings almost certainly will continue to decline as Cuba is forced to reduce export sales of sugar. Even by using the

* Dollar values are given in current US dollars throughout this memorandum.

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carryover stock of 1.1 million tons, Cuban exports of sugar in 1962 will be down substantially from the level of 1961. Exports of sugar in 1963 are expected to decline even further, inasmuch as the sugar harvest in that year probably will be only modestly larger than that of this year and carryover stocks will have been depleted. Furthermore, in 1963, Cuba probably will be unable to sell appreciable amounts of sugar to the Free World after meeting commitments to the Bloc and satisfying domestic consumption.

Over the next year or two, material assistance provided by the Bloc may shield the Castro regime from the worst consequences of its own economic mismanagement. It is estimated, however, that such aid will not be sufficient during this period to offset completely the downward trend in Cuba's economy.

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I. Introduction

The Cuban economy in mid-1962 is in the throes of a progressive decline. Although reliable statistics on most national economic aggregates are not available, other evidence indicates strongly that consumption, production, investment, and foreign trade all are down substantially from their pre-Castro levels and are likely to continue further downward. The cane harvest, which constitutes the backbone of the Cuban economy, was the smallest in the past 6 years, and per capita availabilities of food and other consumer goods have continued to decline, with shortages of the former leading to a national system of rationing. Construction of new housing, vigorously pursued earlier by the Castro regime, is now slumping. Evidence is mounting that the industrial plant of the country is deteriorating more rapidly than it can be repaired or replaced. Raw and intermediate materials are in seriously short supply and, measured by former Cuban standards, are frequently of poor quality. Cuba's reserves of convertible foreign exchange are estimated to be almost completely exhausted, and prospects for bolstering them significantly in the near future appear to be dim.

II. Present State of the Cuban Economy

A. Consumer Welfare

During the immediate post-revolutionary period, 1959-60, Cuba consumed more than it produced. In 1961 the transformation of Cuba into a member of the Communist camp began in earnest, and the impact of this change, added to the overconsumption of the previous 2 years, has produced little but trouble for the economy of Cuba. Per capita food consumption in Cuba is estimated to have declined by more than 15 percent in caloric terms over the last 2 years. In the 3-1/2 years since Castro's takeover, per capita consumption of food in Cuba is estimated to have dropped from third highest in Latin America to seventh. To cope with growing food shortages, the regime introduced in mid-March 1962 a new rationing plan that covers most staple food items and continues the rationing of fats and meats in effect since last year.

The Castro regime has been unable to improve greatly the availability of housing. A large number of grandiose housing projects were initiated in 1959-60, but beginning in 1961 this program began to founder. Within the last year or so, whenever a choice has had to be made between claimants for available construction resources, priority has been assigned consistently to military projects. Castro stated

in May 1962 that Cuba cannot allot the necessary resources to solve the housing problem, because the condition of the economy is too poor. He advised newly married couples to move in with their parents. He further stated that the country must concentrate more on economical housing for the masses and abandon the building of luxury units. Castro conceded that 30,000 less fancy but adequate units could have been provided with the same resources consumed in the 10,000 units so far constructed.

The regime has made frequent boasts concerning the degree to which it has stimulated employment and worker income in Cuba. Havana radio recently asserted, for example, that unemployment declined between 1958 and 1961 from 700,000 to 300,000 and that the total workers' salaries rose from 848 million to 1.4 billion pesos* during the same period. Money income in Cuba almost certainly is distributed among the population today on a broader and more even basis than was the case under Batista. Abundant evidence makes it equally clear that a very high proportion of present employment in Cuba is either only marginally productive or even counterproductive. The ranks of the armed forces, for example, are swollen far beyond the levels prevailing in the pre-Castro era; the governmental bureaucracy is full of incompetents; and large numbers of industrial workers frequently are idled by plant stoppages or are called away from production operations to participate in militia duty or political meetings.

In terms of the health of the Cuban economy, the rapid rise in the total volume of the workers' monetary income in Cuba has created more problems than it has solved. The regime permitted a reduction of 50 percent in rents and a substantial rise in wage payments at a time when the total volume of goods available for purchase by the population was progressively shrinking. As a result, serious inflationary pressures have developed, and black marketing has grown to serious proportions.

Related awareness of this problem on the part of the regime is reflected by a series of measures instituted in 1962, all of which are designed to reduce the volume of currency circulating among the Cuban population. In spite of protestations to the contrary by the Cuban government, the aim of a recent wage reform is to bring about a substantial long-term reduction in wages and salaries (about 30 percent, according to one untested source). Other measures include a system of compulsory state loans and a national savings campaign that also bears all the earmarks of a compulsory levy.

* Peso values may be converted to US dollars at the nominal rate of exchange of 1 peso to US \$1. This rate does not reflect the actual value of the peso in terms of the dollar.

For the most part the Cuban people have endured the general decline in consumer welfare that has taken place during the past 2 years with not much more than grumbling and individual expressions of discontent. In recent months, however, expressions of popular dissatisfaction with the regime have become more highly organized in form and more frequent in occurrence. Deliberate acts of sabotage have been on the increase, absenteeism and work slowdowns have become a matter of growing concern to the government, and June 1962 was marked by the first open demonstrations against the regime. In that month, government troops were called on to quell a demonstration against food shortages in Cardenas, Matanzas Province. This incident apparently was the largest organized protest against declining consumer welfare so far and the first time that a show of force by military units was necessary to control the population.

B. Agriculture

Production of sugar in Cuba in 1962 has been officially reported to be 4.8 million tons, a total about 17 percent lower than the average annual production in 1957-60 and nearly 30 percent less than the bumper harvest of 6.8 million tons in 1961. The large crop of sugar in 1961 was primarily the result of an extraordinary harvesting effort. A large force of volunteer labor assisted the regular canecutters, and, in addition, all of the cane was cut, whereas in previous years a certain percentage of the cane was left standing, to be harvested in the following season.

For a variety of reasons the 1962 harvest has been considerably less successful. First, analysis of data on Cuban rainfall and reports by refugees validate claims by the regime that cane yields in 1962 were affected adversely by below-normal rainfall during the growing season. (The persistence of this dry spell, however, permitted the continuation of harvesting operations for several weeks longer than normal and thus prevented the crop from being even smaller than it was.) Moreover, in its fervor to maximize output of sugar in 1961, the regime brought many inexperienced volunteer cutters into the cane-fields, with the consequence that considerable damage was done to root stock -- a condition that further impaired growth and yields in 1962.

One of the most important factors underlying the poor sugar harvest in 1962 has been the growing apathy and passive resistance among both regular and volunteer canecutters, notwithstanding frequent exhortations by Castro and other Cuban leaders. Finally, some of the faulty decisions of management made a year or two earlier caught up with the Cubans in the 1962 harvest. Both the reduced rate of replanting in 1959 and 1960 and the transfer of cane land to production of other crops in the blind pursuit of crop diversification contributed to a smaller crop in 1962.

Promiscuous consumption of livestock during the first 2 years of Castro's rule seriously jeopardized the future supply of meat and dairy products. As employment and wages were increased, consumption was stimulated. To satisfy the increased demand for meat, particularly by those who previously had not had very much, the Cubans slaughtered cattle excessively, including breeding stock and dairy cattle. Although the regime maintained that this increase in the rate of slaughtering was due to the increased purchasing power of the Cuban masses, an equally important factor was the fear of livestock owners that their property would be expropriated by the government. As a consequence of the excessive slaughtering, the number of cattle is estimated to have decreased by 14 percent from January 1959 to January 1961. In spite of stringent restrictions on slaughtering cattle, belatedly imposed by the government, it is estimated that the number of cattle in January 1962 was still below the pre-Castro level. Continuing mismanagement in the livestock industry and a protracted shortage of high-nutrition feeds for livestock preclude any early improvement in this segment of the Cuban agricultural economy.

The level of production of agricultural products other than sugar has been much lower than planned -- a situation that, together with other faulty planning and management decisions, has resulted in the introduction of rationing throughout the country. A substantial part of Cuba's foreign exchange has always been used to import much of the country's requirements for food. In 1957 and 1958, for example, about 20 percent of the value of Cuba's total imports was expended on food items. To reduce this expenditure, planners in the Cuban government decided to intensify efforts to diversify agriculture and to grow a larger share of the country's food. Some of the decisions concerning crop diversification apparently were made without ample consideration of facts. Thus, for example, rice was sometimes planted in areas of saline instead of fresh water, and land that had been planted in sugar cane was replanted in other crops. Planners probably underestimated the amount of sugar that Cuba would be able to sell in 1962, and, as a result, they misjudged the amount of land that would need to be replanted in cane. The reduced replanting of cane fitted well with the preconceived desires of the planners to increase the planting of other crops. The time, effort, and expense of clearing and preparing new land for planting other agricultural crops could be reduced substantially by using former canefields. The meager sugar crop in 1962 points up the errors of the decision to increase the planting of other crops at the expense of sugar. Moreover, the Cubans did not have, as they had in previous years, the safety factor of overplanting to offset the effects of a serious drought.

Output of agricultural products other than sugar is estimated to have remained, in general, at about pre-Castro levels -- a serious

setback for the regime, inasmuch as planned goals for these crops in 1961 and 1962 had been established at a much higher level. Carlos Rafael Rodriguez, president of the National Institute of Agrarian Reform (INRA), recently admitted that the overly ambitious planned goals for agricultural output in 1961/62 had been generally underfulfilled. The consequence of this failure was that the level of supplementary imports, which had been determined on the basis of the unrealistically high production targets, proved to be inadequate, and the imposition of rationing became a necessity. He conceded that this planning failure had had its most adverse effects on the availability of rice and beans -- the two most basic items in the Cuban diet and the ones for which Cuba normally depends on imports for more than 50 percent of the total supplies.

Rodriguez was considerably more optimistic about crop results of the last several months, claiming abundant yields of potatoes, tomatoes, coffee, and rice. His optimism is not supported by refugees reaching Miami, however, who continue to report scarcity of virtually all food items, except coffee and sugar, in the retail outlets.

C. Industry

The industrial sector of Cuba's economy appears to be undergoing a gradual, general deterioration but does not appear to be headed for imminent, complete collapse. The rate and nature of deterioration varies considerably from one industry to another. In certain priority industries, such as petroleum refining and nickel processing, the Cubans obviously have made special efforts to maintain output at as high a level as possible. In spite of numerous day-to-day problems, they have achieved considerable success in the former and a little less in the latter. In most other industries, particularly those producing for domestic civilian consumption, both the volume and the quality of output have been declining substantially during the past several years. Although ad hoc solutions frequently have been found in time to keep production operations going at individual plants, these expedients have been inadequate to offset or reverse the general downward trend of Cuban industrial activity.

Much of the decline in the industrial sector can be attributed to the deterioration of machinery and equipment and to gross incompetence on the part of managerial personnel. Cuba's industrial plants were constructed and equipped by Free World countries. As machinery and equipment break down or wear out, Cuba must repair or replace them. The embargo imposed by the US against the export to Cuba of spare parts and equipment has made the task of obtaining such items extremely difficult. Even if there were no embargo, Cuba would be confronted by serious constraints in its efforts to purchase parts and equipment

owing to the steady dwindling of its reserves of convertible foreign exchange. Cuba has been forced to patch existing equipment, to cannibalize other equipment, and to substitute equipment from the Bloc for wornout equipment of Western origin. Although the effort was expensive and time-consuming, Cuban purchasing agents have in a number of instances been successful in obtaining US or US-compatible equipment through other countries in circumvention of the US embargo.

The deterioration of Cuba's industrial facilities has been accelerated by the somewhat reckless use of many plants by poorly qualified personnel. Mismanagement seems to have been the rule rather than the exception. Few plants are likely to have escaped the adverse consequences of operating decisions made by managers and personnel who knew little or nothing about the operation or capacity of machinery and equipment. These persons are ill-equipped by training and experience to prolong the life of valuable machinery and equipment by judicious use and proper maintenance. Most frequently, they achieved their positions by being able to meet, first and foremost, the test of political reliability rather than that of technical competence. As a consequence, the plant and equipment of Cuba's industrial sector probably is deteriorating at a faster rate than the country is able to replace it.

Many industrial plants in Cuba have been shut down, for varying periods of time, as a result of shortages of raw and intermediate materials and of the frequent failure of such materials to meet required specifications. These problems stem primarily from Cuba's inability to purchase materials from the Free World because of insufficient holdings of foreign exchange; inability or unwillingness of the Bloc to supply certain types of materials; and at times poor delivery schedules, which are partly the result of the long supply lines between Cuba and its Bloc sources of supply. The shortage of convertible foreign exchange also has forced Cuba into accepting industrial materials from the Bloc that frequently have been either of poorer quality than were the inputs formerly obtained in the Free World or unsuitable for efficient processing through Cuba's machinery, which is largely of Western origin.

III. Bloc Economic Aid

In an effort to shore up Cuba's sagging economy, the Castro regime has been making increasingly heavy demands on the Bloc for economic aid. Most of the Bloc countries have agreed to provide Cuba with assistance, some of which is to be in the form of economic development credits and some of which apparently is to be in the form of commodity credits for current supplies of raw materials, fuels, and food.

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It is estimated that economic development credits to Cuba from all Bloc countries now total \$457 million. Through 1961 the USSR had extended credits totaling \$200 million to Cuba, and sometime during the first months of 1962 an additional credit of \$100 million apparently was extended by the Soviet government for the purchase of industrial plants. Details on this new credit are lacking, inasmuch as no explicit announcement of its extension was made by either Cuba or the USSR. Of the total estimated credits of \$300 million extended by the USSR, only \$100 million are long term (having a repayment period of 12 years). At least \$100 million -- and probably all of the balance -- are medium term (having a repayment period that is no longer than 5 years). Cuba also has been granted credits by the European Satellites and Communist China totaling \$157 million.

In addition to extending these credits to Cuba for the purchase of industrial plant and equipment, the USSR probably also has extended a commodity credit for the import of current supplies of raw materials, fuels, and food. This credit, which evidently was extended in the spring of 1962, represents a new type of Soviet assistance to Cuba, inasmuch as former credits were earmarked specifically for industrial development. As in the case of the new economic development credit of \$100 million, no announcement has been made by either side. Evidence for the commodity credit is provided, however, by the supplements to 1962 trade protocols that Cuba recently signed with the USSR and other Bloc countries. The announcements concerning these supplements refer only to Bloc exports to Cuba and provide for an increased level of trade that Cuba probably could finance only if credits were extended for this purpose. The precise value of the commodity credit, as well as its terms, is unknown. Available evidence suggests, however, that \$50 million is a reasonable estimate of the amount.

As of mid-1962, Cuba had received from the Bloc only a small percentage of the economic aid promised in the various development agreements. During the first half of 1962 the USSR evidently made the first deliveries under its credits. Material for the expansion of Cuba's three existing steel mills probably began to arrive during that period. Of the credits extended by the European Satellites, it appears that Cuba has been able to draw against only those of Czechoslovakia. The Czechoslovak government continued during the first half of 1962 to make deliveries of machinery and equipment for several small industrial plants that are being constructed for Cuba. Capital development assistance promised to Cuba by Communist China has yet to materialize, and it appears highly doubtful that actual deliveries will begin any time in the near future.

In addition to delivering machinery and equipment, the Bloc also is providing and financing technical assistance. In mid-1962 it is estimated that there were about 950 Bloc economic technicians in Cuba, and in July and August of this year there probably were more than 5,000 additional arrivals of Bloc specialists. Many of these specialists almost

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certainly are in Cuba in connection with the military equipment recently acquired from the USSR. The percentage of recent arrivals who are military specialists as opposed to economic technicians and engineers is not known, but they might represent as much as half of the total. Many of the non-military specialists arriving in July and August are believed to be skilled laborers rather than highly trained technicians or engineers.

IV. Foreign Trade

The Cuban economy is based on foreign trade. Although Cuba produces some foodstuffs, other consumer goods, and industrial raw materials for domestic consumption, the country always has depended on external sources for adequate supplies of these items. It has obtained foreign exchange to pay for these imports primarily from exports of sugar (accounting for about 80 percent of the total value of exports), tobacco (accounting for about 8 percent), and minerals (accounting for about 4 percent). The extent of Cuban foreign trade in 1957-58 and 1961-62 is shown in the following tabulation:

Cuban Foreign Trade*
1957-58 and 1961-62

	Million Current US \$			
	<u>1957**</u>	<u>1958**</u>	<u>1961***</u>	<u>1962***</u>
Free World				
Cuban exports	765	720	160	100
Cuban imports	850	855	175	120
Total	<u>1,615</u>	<u>1,575</u>	<u>335</u>	<u>220</u>
Bloc				
Cuban exports	45	15	480	430
Cuban imports	Negl.	Negl.	410	525
Total	<u>45</u>	<u>15</u>	<u>890</u>	<u>955</u>
Total trade				
Cuban exports	810	735	640	530
Cuban imports	850	855	585	645
Total	<u>1,660</u>	<u>1,590</u>	<u>1,225</u>	<u>1,175</u>

* Not including shipments of military items from the Bloc. Data are rounded to the nearest \$5 million.

** Official trade statistics.

*** Estimated.

The changes in the level, composition, and direction of Cuba's trade since Castro took over the government constitute a significant reflection of what has happened to the Cuban economy since that time. The total Cuban trade in 1961 was about 25 percent below the level in the pre-Castro years, 1957-58. The level of total trade probably will continue to decline in 1962 and is likely to be nearly 30 percent below the level prevailing in 1957-58.

Through 1961 the level of imports declined more sharply than did exports. The decline in imports stemmed primarily from the decline in the level of exports and to a lesser extent from the restraints imposed by the US embargo. The decline in exports reflected primarily the reduced return from sales of sugar, resulting partly from a decline in the world price of sugar and partly from the fact that the premium for sugar paid by the Bloc was less than that formerly paid by the US. Smaller sales of other agricultural products and minerals also contributed to the lower level of total exports.

In 1962 the total Cuban exports will continue to decline, but the total imports will be greater than in 1961. Most of the decrease in the level of exports (\$110 million) can be attributed to reduced sales of sugar. Whereas Cuba made direct sales of about 1.6 million tons of sugar to Free World countries in 1961, sugar available for such sales in 1962 probably totals about 1.2 million tons.* The decline in shipments of sugar to the Bloc in 1962 probably will be larger than the decline of 400,000 tons in shipments to the Free World.

Underlying all these changes has been the deliberate decision of the Castro regime to shift the overwhelming bulk of its foreign trade from the Free World to the Bloc. The share of the Bloc in Cuba's trade, which in 1958 was about 1 percent, climbed to nearly 75 percent by 1961 and is expected to exceed 80 percent in 1962.

By the end of 1961, Cuba's convertible foreign exchange reserves were virtually exhausted. Although the exact size of these reserves is not known, they probably did not exceed \$20 million. The total exchange resources (that is, convertible currency plus bilateral clearing balances) were somewhat higher but probably did not exceed \$80 million.

* Cuba carried over about 1.1 million tons of sugar stocks from 1961 and obtained from the harvest this year about 4.8 million tons, for a total availability of 5.9 million tons. Of this quantity, nearly 400,000 tons will be consumed in Cuba and about 4.3 million tons probably will be shipped to the Bloc, leaving a balance of nearly 1.2 million tons available for direct sale to the Free World.

The brunt of the reduction in the level of imports by Cuba since the Castro regime assumed power has been borne by the Cuban consumer. Imports of durable consumer goods have virtually ceased, and those of nondurable consumer goods also have been cut sharply. Imports of food alone, which totaled about \$180 million in 1958, are estimated to have fallen to about \$100 million in 1961.

In addition to its heavy reliance on imported consumer goods, Cuba is even more dependent on large imports of raw materials, capital goods, and fuels to maintain and expand its economy. Although the volume of imports of these items also has fallen, the declines have been smaller than in the category of consumer goods. The value of imports of producer goods increased steadily in the years before the revolution but has declined since then. Imports of raw materials, capital goods, and fuels were valued at about \$500 million in 1958 but had fallen to an estimated \$450 million in 1961.

In real terms, Cuba's net import position very probably has been eroded more seriously than is indicated by the foregoing monetary estimates. Since the countries of the Bloc have become its primary trading partners, a much larger share of Cuba's import dollar is eaten up by transportation charges than when Cuba imported primarily from the US and Western Europe. Furthermore, on a dollar-for-dollar basis, the quality and diversity of goods formerly obtained by Cuba from the West is not and cannot be matched by the Bloc, especially in the area of consumer goods and commodities. Finally, there are persistent reports that prices being paid by Cuba for a number of goods procured in the Bloc are higher than those prevailing for comparable goods in the world market.

V. Prospects

Cuban economic prospects for the remainder of 1962 and for 1963 are bleak. Militating against an early improvement in the economy is the central fact that Cuba is in the hands of leaders ill-equipped for economic management and predisposed to substitute exhortation for sound judgment. Poor planning and management appear to have prevailed in most sectors of the economy. For all practical purposes the highly vaunted economic plan and budget for 1962 have been abandoned, and evidence now indicates that earlier targets of the regime for economic growth through 1965 are being subjected to substantial deflation.

A growing number of Bloc officials have confided that economic assistance to Cuba is made extremely difficult by the erratic behavior of the Cuban leaders and their immature response to constructive criticism. It is highly probable that such difficulties figured prominently in the recall of Soviet Ambassador Kudryavtsev in May 1962.

The consequence of faulty decision-making by the Cuban regime is now and will continue to be evidenced by diminished prospects in the crucial sugar industry through 1964. In a sober and dispassionate analysis submitted to "Che" Guevara in late April 1962, Alfredo Menendez, Director of the Sugar Industry, charges that the Cane Cooperatives and People's Farms are characterized by "total disorganization and apathy," whereas the private sector displays a "complete absence of political orientation" and in some cases "a frankly counterrevolutionary attitude."

According to Menendez, output of sugar in 1963 is unlikely to exceed 5.3 million to 5.4 million tons, and projections for 1964 are for a crop yielding no more than 5.1 million tons and possibly less than 4.5 million tons. Menendez further predicts that in neither year will Cuba have sufficient sugar available to make appreciable direct sales to the Free World. Cuba is unlikely to have any sizable stock of sugar at the beginning of 1963, because all of the sugar available in 1962 probably has been or will be committed for export. Production in 1963 and 1964 probably will be only large enough to permit Cuba to meet its export commitments to the Bloc and its requirements for domestic consumption, which together total about 5 million tons annually. Menendez asserts that, in order to permit upward revision of these production projections, drastic planting increases in 1962 would have to be achieved. Available evidence indicates, however, that plantings thus far in 1962 have been far below requisite levels.

Further reduction in Cuba's sales of sugar to the Free World will have an adverse impact on the level of industrial production. In contrast to previous years, Cuba will not be able to bolster its holdings of convertible foreign exchange, which already are dangerously low. As a consequence, a continuing constriction will be placed on Cuba's ability to purchase machinery, equipment, and industrial raw materials outside the Bloc. During the next 18 months the level of industrial production probably will continue to decline as plants shut down sporadically because of equipment breakdowns and material shortages. Quality and durability of Cuban industrial products will continue to suffer as a result of makeshift technical practices and of using inferior raw materials.

Although it certainly will not bring about any net growth in Cuba's economy in the next 18 months, an expected rise in the level of imports from the Bloc may establish preconditions for some improvement over the long run. Cuba's imports in 1962 probably will be about 10 percent larger than in 1961. Several factors will contribute to this increase. First, Cuba has some balances in its bilateral clearing accounts with both Bloc and non-Bloc countries that can be drawn on to help finance a higher level of imports. Second, the USSR apparently has extended a

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commodity credit to help Cuba maintain an adequate flow of imports, in spite of reduced earnings from exports of sugar, and some of the European Satellites also may have extended this type of balance-of-payments support. Finally, the USSR, and probably some of the European Satellites, will increase deliveries of capital goods under their economic development credits to Cuba.

The level of the total imports that Cuba should be able to achieve in 1962 might permit imports of raw materials, capital goods, and fuels to rise above the level of 1958. The extent to which imports of food and other consumer goods also are allowed to increase will determine how much of an increase can be achieved in imports of industrial goods. The supplements to 1962 trade protocols that Cuba recently signed with the USSR and other Bloc countries indicate that food imports will be increased in 1962. For example, scheduled shipments of food by the USSR probably were increased from \$45 million to about \$65 million.

Cuba should be able to draw rather quickly on the commodity credit, which probably will provide an important source of financing for imports during 1962. Bloc deliveries against the development credits, however, will be slower in coming. The USSR has agreed to deliver machinery and equipment for a file factory and a machinery and spare parts plant during 1962, and petroleum drilling equipment financed by Soviet credits probably also will be shipped before the end of the year. On the other hand, there is no indication that deliveries will begin on a substantial scale in the near future on any of the major Soviet aid projects. The new steel mill, petroleum refinery, nickel plant, and power plants, which both the Cuban and Soviet press repeatedly mention as the principal examples of Soviet assistance to Cuba, are still in the planning stage. It is doubtful that deliveries of production equipment for any of these projects will begin before mid-1963 at the earliest, and most of them are not scheduled for completion until 1965 or later. Deliveries against the credits extended by the European Satellites (other than Czechoslovakia, which already has made some deliveries) also may begin to arrive before the end of 1962. As yet, there is no indication as to when Communist China may be expected to begin the implementation of its credit program.

The credits extended by the Bloc for economic development in Cuba are significant, but deliveries thus far have been little more than a trickle. Although progress is being made in the planning and design phase of various Soviet and Czechoslovak projects, the annual rate of drawing against Bloc credits still is small. During 1962, total drawings probably will not exceed \$25 million, an amount that was about the size of Cuba's average annual net import of foreign capital in 1955-58. Thus the Bloc aid program so far has not increased the volume

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of foreign capital reaching the Cuban economy. Barring a significant deterioration of the Bloc-Cuban relationship, however, it is anticipated that in 1963 -- particularly during the latter half of the year -- Bloc deliveries for capital development projects will have accelerated considerably above the rate in 1962.

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